Reply Affidavit of
James S. Kahan

REPLY AFFIDAVIT OF JAMES S. KAHAN

State of Texas)
) ss:
County of Bexar)

James S. Kahan, being duly sworn, deposes and says:

Qualifications

1. My name is James S. Kahan. I am the Senior Vice President for Corporate Development of SBC Communications Inc. ("SBC"). I have previously filed an Affidavit in support of the joint applications of SBC Communications Inc. ("SBC") and Ameritech Corporation ("AIT") in this docket.

Purpose of Reply Affidavit

2. The purpose of this Reply Affidavit is to respond to a number of erroneous claims made by our competitors/opponents who have filed oppositions to this merger. In addition, I will:

(a) Demonstrate SBC's commitment to the National-Local Strategy;

(b) Demonstrate that the capabilities and geographic presence derived from the National-Local Strategy are valued by customers;

(c) Demonstrate that this merger, and the National-Local Strategy enabled by this merger, will create a national and global company that can compete with the very same competitors/opponents who have filed the most strenuous oppositions to this merger;

(d) Demonstrate that, despite the erroneous and misleading claims of our competitors/opponents, the National-Local Strategy is credible;

(e) Demonstrate that, despite the claims of our competitors/opponents to the contrary, it would be unacceptably risky for our shareholders, employees and customers of SBC to undertake the National-Local Strategy on its own.

The Telecommunications Market is in the Midst of Revolutionary Changes

3. The telecommunications market is in the midst of irreversible changes and trends which are both the result of, and a response to, changes in the ability of telecommunications providers to offer customers capabilities they need on a national and global basis and the fact that customers recognize that this ability now exists. These changes are a direct result of a number of different factors including the market opening initiatives of Congress, the FCC and various state and foreign governments. The Telecommunications Act of 1996 has eliminated all legal and practical barriers to entry into the local exchange markets. This has, in turn, allowed companies to integrate their product lines and offer a robust package of local, long distance, Internet, wireless and other services which customers demand. We are also witnessing dramatic

changes in technology as the role of data increases geometrically in importance to customers and the Internet broadens access to information by all segments of the market.

4. Customers have recognized these changes and are forcing telecommunications providers, particularly companies who wish to serve the complex telecommunications needs of large and mid-size business customers, to integrate their product lines, expand their geographic coverage nationally and internationally, and enhance their technological capabilities, all to create a platform by which each customer can obtain essentially one stop shopping and, of equal importance, "one stop service" from a single entity. These demands require a company which can, to the fullest and broadest geographic extent possible, offer facilities-based services to large and mid-size customers, wherever those customers may be. In a July 1997 study titled, "Integrated Carriers - The User Speaks," (the "Yankee Group Study"), the Yankee Group reported on the results of surveys of business customers indicating a very strong preference for this capability. For example, 67% of the respondents to the Yankee Group survey indicated that it was important or very important that their primary or secondary carriers be integrated. Only 13% of the respondents believed that it was not important or irrelevant. Furthermore, in the same study, the Yankee Group attempted to evaluate why it was important to the respondents that their primary/secondary carrier be integrated. As a result of further inquiry, 62% of the respondents identified one stop shopping as their most important reason. Fifty-five percent (55%) indicated lower cost would be the primary reason, 37% chose manageability, 25% indicated simplicity and

24% indicated high reliability as the reason why they wanted their service provider to become integrated.

5. It is ironic that the very competitors/opponents who have filed the most vigorous oppositions to this merger have themselves recognized and acted on the need to expand geographically in order to serve customers. The examples are well known, with two of the most prominent being: the combination of MCI/WorldCom/Brooks Fiber/MFS/UUNET and the combination of AT&T/TCG/TCI, coupled with AT&T's global venture with BT, which, of course, involved marriages of direct, head-to-head, actual competitors. The new MCI/WorldCom is extensively and broadly advertising its On-Net service indicating that it is the only national and global company which can offer customers the one stop shopping capabilities they want across the nation and around the world. Recently, MCI/WorldCom published a 12 page insert in *The Wall Street Journal*, (see Attachment 1), which repeatedly promotes the company as being the one company which can offer local plus national plus international capabilities for all services required by customers. In its promotions, MCI/WorldCom stresses that customers, "can buy every communications service your business requires from one company." (See page 4 of Attachment 1). This promotion goes on to note that, "[s]erving every possible communication need also means we can keep products, services and support consistent around the globe." (See Page 4 of Attachment 1).

6. These print advertisements are not the only medium by which MCI/WorldCom is promoting its capabilities. In television advertisements, it touts the historic nature of the combination of their companies and the ability this combination generates to provide

single source telecommunications services around the world. In *The Wall Street Journal* insert and in television advertising, MCI/WorldCom compares the merger with the combination of the two largest railroads in America which united the Atlantic and the Pacific, tying America into a single country. In the television advertisement, MCI/WorldCom notes that as a result of that combination, "America was officially open for business." This promotion then goes on to note that: "A new and critical link has been forged. Two of the largest networks on earth have just become one. With a capacity so vast, it can carry all the data traffic of all the other carriers combined to more places around the world than any other network." (60 second television advertisement, first aired September 15, 1998) *(emphasis added)*. Yet another television advertisement of MCI/WorldCom promotes its local to international capabilities using a single network. In this promotion, an MCI/WorldCom spokesman states, "If you could accompany your data on its trips overseas ... the experience would be alarming. Local carriers handing it to national carriers ... over to cable carriers ... 'till you don't know who has your data unless you send it through here. With the one and only company ... that owns the entire network ... local, national and international. So you know who has your data. On-net from MCI/WorldCom." (30 second television commercial, first aired October 12, 1998). (Emphasis added).

7. MCI/WorldCom, however, is not the only company that is assembling this capability. AT&T, already the largest US telecom carrier, has shown that it believes it needs a broader reach to compete effectively in the emerging era of national and global end-to-end competition. It has recently completed its $11 billion merger with TCG, the largest CAP in the country which serves over 100 markets, which follows on the heels of its

$11.5 billion acquisition of McCaw Cellular, the largest cellular operator, four years ago. AT&T is now pursuing its $48 billion acquisition of TCI, it has entered a multi-billion dollar alliance with British Telecom (thereby obtaining access to over 75% of trans-Atlantic traffic between New York and London) and, according to press reports, its currently in active talks to further align itself with other major cable companies including Time Warner. With these acquisitions, AT&T claims that it will offer a fully integrated package of communications, electronic commerce and video entertainment services with not only a national but global footprint. These combinations were clearly designed to create a local, national and international company designed to serve the telecommunications needs of all customers wherever they may be located. The FCC recently recognized the enormous national and international resources AT&T has accumulated. In its Memorandum Opinion and Order approving the acquisition of Teleport Communications Group, Inc. by AT&T, the FCC noted that: "AT&T is the largest long distance and international carrier in the United States. In re Application of Teleport Communications Group, Inc. and AT&T, Memorandum Opinion and Order Docket, 9824 at para. 3. In that same order, the FCC described TCG as the nation's largest competitive local exchange carrier that provides local service primarily over its own local fiber optic facilities, broadband wireless capabilities and rights of way, supplemented by the resale of others' local service that allows Teleport to operate in 83 markets in the United States including 29 of the largest 30. AT&T/TCG Order at Page 5.

8. AT&T promotes very heavily its local exchange services. For example, on its Internet site (www.att.com), AT&T notes that, "By choosing AT&T as your local service

provider, you give your business the convenience, reliability and competitive pricing that only AT&T can provide. ... Click here to see why AT&T is the one local provider equipped to help you expand your business -- through one single connection." (www.att.com /local, reviewed Monday, November 2, 1998). (Emphasis added). On its Web site, AT&T promotes its Digital Link service for bundled local services for AT&T long distance customers, touting that this service is available in every state except Alaska. (www.att.com/att_digital_link/avail.html, reviewed Monday, November 2, 1998). It is particularly interesting to note that one service touted by AT&T is for AT&T business local services which it described as, "stand-alone local service for long-distance AT&T customers with multiple locations." (www.att.com /local/services, reviewed Monday, November 2, 1998). On its Web site, AT&T touts this service as being a "full-featured, stand-alone, switched local service designed for larger customers who already subscribe to an AT&T long-distance calling plan (such as SDN, OneNet, VTNS or UniPlan) that aggregates usage from multiple locations." (www.att.com /local/services).

9. Astonishingly, Sprint, one of the competitor/opponents that filed one of the most vigorous oppositions to this merger, attempts to suggest that no one can provide these national and global services. Steven Signoff, the Vice President of Strategic Business Development for Sprint, argues that, "Suppliers will generally not be able to offer sole source arrangements for the largest users for some time to come, at least not [for] local services across several geographic regions ..." (See Signoff affidavit at Para. 9). This seems inconsistent with the affidavit of Gene Agee, the Director of Finance at Sprint National Integrated Services, who swears that, "Sprint owns national long distance networks today which provide voice and data services to both business and consumers

over distinct and separate networks." (See Agee affidavit at Page 6). Mr. Agee describes in detail the capabilities of Sprint's proposed ION network to serve local customers. While Mr. Signoff may be correct as to the current capabilities of Sprint, he simply ignores the enhanced capabilities of competitors such as MCI/WorldCom/ MFS/Brooks/UUNET and AT&T/TCG/TCI/BT. Further, Mr. Signoff's affidavit completely ignores the Global One partnership it has formed to deliver global services together with Sprint's shareholders Deutsche Telekom and France Telecom. Ironically, the Yankee Group, in its 1997 study, had this to say about Sprint: "It is hard to call Sprint anything but a full-service provider." The Yankee Group goes on to describe the advantages Sprint has over other IXCs. Included in these advantages are the fact that "Sprint has the benefit of knowing how to operate local telephone companies," "that will allow Sprint to bundle local services for large users more quickly and effectively than either AT&T or MCI." (Yankee Group at Page 34). This experience was also cited as a reason why the Yankee Group expected Sprint to "first focus on large businesses that have a significant local and regional presence." (Id.).

10. While AT&T and MCI/WorldCom have been rapidly accumulating substantial assets to compete around the globe, Sprint has chosen not to. Sprint ignores these market realities at its own risk. Customers can receive and are receiving one stop capabilities from a number of companies who can offer local, national and international capabilities on an integrated basis wherever those customers may be.

The New SBC is Committed to Implementing the National-Local Strategy

11. Despite the speculation of our competitors/opponents, SBC and Ameritech are fully committed to the implementation of the National-Local Strategy. Indeed, the implementation of this strategy is critical to the future success of SBC and Ameritech. I have described briefly above the enormous competitive pressures which we face in an effort to serve large and mid-size business customers. These customers are critical to the long term success of SBC and Ameritech.

12. The crucial nature of this strategy was described in detail to the Board of Directors of SBC at the time the merger was presented for their approval. In approving this merger, the Board approved the National-Local Strategy, approved the strategic direction embodied in the National-Local Strategy and approved the efforts of management to implement that strategy. We have described this strategy in detail in our Public Interest Statement submitted to the FCC in this proceeding and in pre-filed testimony submitted before the Illinois Commerce Commission as well as in various filings submitted to the Securities and Exchange Commission. Mr. Edward E. Whitacre, Chairman and CEO of SBC, has described this National-Local Strategy and its importance to SBC, its customers, employees and shareholders in testimony submitted before the Senate Judiciary Committee and an En Banc panel of this Commission. SBC does not make these statements lightly. Those competitors/opponents who question SBC's commitment to this policy are wrong.

13. SBC and Ameritech have demonstrated the powerful economic incentives which compel them to undertake the National-Local Strategy. I have described above in some detail the competitive advantages accumulated by MCI/WorldCom and AT&T/TCG/TCI, and I have demonstrated the manner in which those companies are applying those advantages in the marketplace. Those advantages have been acquired with the consent and approval of this Commission. We do not begrudge these competitors' success in accumulating the assets necessary to compete in this marketplace. But, we do not believe -- as the FCC Chairman has recognized -- that it is the role of this Commission to determine winners and losers; that should be done by customers with this Commission ensuring that all competitors have an opportunity to compete in the marketplace. Competitors will choose alternative strategies; BellSouth, for example, appears so far to have chosen the strategy of proceeding largely alone, which is their choice and they should be allowed to undertake that strategy. The combined AT&T/TCG/TCI/BT and MCI/WorldCom/MFS/Brooks/UUNET, and others, have chosen a different course that they believe is good for customers, employees and shareholders. This course should not be limited to a chosen few approved by this Commission. Rather, this Commission should encourage, and support equally, efforts to bring competitive alternatives to customers around the country and around the globe.

Customers Desire a Single Source of Telecommunications Services

14. Large business customers have, in the past, used multiple telecommunications providers; this split has primarily been along technology lines. As an example, customers have in the past selected separate providers to deliver voice, data, CPE,

LAN, WAN and other solutions. These decisions have been driven by the providers' perceived expertise in a service or technology area, breadth of product offerings (which includes geographic scope), and relationships between the customers and the providers. In the past, when multiple providers were selected to provide the same technology, (i.e., voice or long distance), large business customers typically utilized a primary carrier for a majority of their long distance traffic and a secondary carrier for a smaller percentage. The primary/secondary relationship is used for leverage during contract negotiation, as a means to experiment with a secondary provider's service offering and/or to meet the requirements of a niche business application.

15. As a number of customers who have submitted comments in these proceeding have noted, due to the fractured nature of SBC and Ameritech's geographic coverage and service offerings, we have been viewed only as "niche players." (See e.g., Comments of Emerson Electric, Attachment 2, describing SBC and Ameritech as "niche players" with neither one, standing alone, being of high impact to Emerson.) In light of the rapid accumulation by our competitors/opponents of the capabilities to provide integrated solutions to large business customers, on a much larger geographic base than either SBC or Ameritech alone can serve, we must position ourselves to compete for these large corporate customers, or risk significant customer attrition.

16. In order to have an opportunity to be considered along with our competitor/opponents to serve these large corporate customers, we believe that 70-80% coverage of the customers' local and long distance expenditures is critical. It is at this point that SBC can become a viable candidate for delivering telecommunications

services as a primary carrier, as opposed to a niche carrier. This is true for the following reasons:

- Larger geographic coverage enables SBC to be considered for a higher percentage of the customers' telecommunications services;

- Broader geographic coverage allows a provider to develop and roll-out new products and services more cost effectively;

- This broader geographic coverage results in a higher percentage of the customers' telecommunications expenditures being considered in a consolidated contract which recognizes the customers' total telecommunications purchasing power;

- Consolidated contracts based on revenue and term commitments result in SBC being able to deliver reduced rates and value added service packages for the customers; and

- Larger geographic coverage by a telecommunications provider also results in the customer having to make fewer contacts to accomplish ongoing move, add and change activity throughout their nationwide organizations. This is a key, value-added consideration for large business customers.

17. The FCC does not have to rely merely on the judgment of SBC and Ameritech in determining whether these capabilities are important to customers. That this expanded geographic coverage, and the ability to provide an integrated voice and data capability

to large business customers, is highly valued by customers is directly supported in the letters that customers have submitted in this proceeding directly addressing these points. For example, Edward Jones, a nationwide brokerage firm, has indicated a strong preference to reduce the number of vendors with whom it contracts and a strong preference for dealing with telecommunications providers with a "similar scope" to its national presence. (See Attachment 3). Levi Strauss has indicated that: "it is important that our telecommunications providers be national, or preferably, global, providers of service. The SBC National-Local Strategy makes the post-merger SBC/Ameritech such a provider and creates a new, significant competitor that Levi's can consider." (Attachment 4).

18. Ultramar Diamond Shamrock indicates that, "We believe we receive significant value from working with a telecommunications company that can satisfy most or all of our telecommunications needs. This type of relationship gives us volume discounts, network compatibility, and focused accountability. To date, we have not considered SBC as a potential provider of services to all of our locations." (Attachment 5). Ultramar Diamond Shamrock goes on to note however that, "[w]ith this (the National-Local Strategy) significant amount of coverage, we will finally be able to consider SBC as a candidate to be our strategic source of telecommunications services." (Id.)(emphasis added). This letter goes on to note that they will benefit directly from the merger stating that: "It will mean there is one more major telecommunications company to compete for our business." (Id.).

19. Similarly, Commonwealth Edison wants to deal with suppliers "who can serve us anywhere," noting that this merger creates such an alternative. (Attachment 6). This letter goes on to note that the merger will give the combined SBC/Ameritech the "size and strength it needs to compete against large national players and therefore continue to be a strong, strategic partner with ComEd." (Id.). Similar conclusions were reached by Allegiance, which noted that it would benefit "by reducing the number of telecommunications providers that we must deal with on a local, national and global basis." (Attachment 7). BANK ONE said that the merger gives the combined company the size and strength to compete and better positions it to serve "BANK ONE's expanding footprint" (Attachment 8) and Huntington Banks said that the combined reach created by the National-Local Strategy would result in that company being more inclined to view SBC/Ameritech as a "truly national strategic partner." (Attachment 9). All of these customers concur that this merger creates another opportunity for customers to get what they want -- one source of service wherever they may have locations.

20. While some competitors/opponents question SBC's assertions that it was not considered by large business customers for national services, and had not been successful in bidding for large contracts from these customers, the facts belie those concerns. The customers cited above clearly demonstrate that the National-Local Strategy enhances the new SBC's capabilities to compete for customers. Their comments demonstrate that, absent this merger, SBC's ability to compete for these customers would be significantly limited. Shell Oil, one of SBC's largest customers, is even more explicit in describing its concerns. While noting that Shell has relied on SBC to provide domestic telecommunications products and services since 1965, Shell points

out that these services have been limited to where SBC's operates as an incumbent local exchange carrier. In fact, Shell notes that, "Despite the partnership approach Shell and SBC have adopted, there are important telecommunications needs of the company, which SBC today is unable to satisfy. For example, Shell did not even consider SBC in its most recent solicitation of bids to provide Shell's long distance, voice and data service because of SBC's inability to provide service in certain areas of the United States." (Attachment 10)(emphasis added). Shell goes to emphatically describe the benefits it will receive from this merger. Shell specifically points out: (i) that, following the merger, the combined SBC/Ameritech "will be able to meet over 70-80% of Shell's telecommunications expenditures," (ii) that a "carrier's ability to provide all or a substantial bundle of services to the company is highly valued by Shell," and (iii) that the merger with Ameritech combined with the National-Local Strategy will make SBC the kind of national and global carrier that Shell looks to when purchasing telecommunications services. (Id.).

SBC is Actively Preparing to Implement the National-Local Strategy

21. Some of the competitors/opponents of this merger have questioned the commitment of SBC and Ameritech to this strategy, pointing to references in my original affidavit to the fact that we are continuing to evaluate the National-Local Strategy. (See, e.g., AT&T at 36). Their concerns are simply misplaced. What SBC has been doing is further evaluating how to implement the National-Local Strategy, not whether to do so. SBC is actively evaluating this strategy to improve it and to ensure that the implementation of the strategy can begin as quickly after the closing of this merger as is

humanly possible. Indeed, speed of implementation is one of the primary issues we are considering. Frankly, as we have expanded the scope of the management personnel involved in the planning for this strategy, it has become quite clear to SBC that our initial rollout plans were too slow. We originally planned to have entered each of these 30 new markets within three years of the closing of the merger. Our marketing personnel are convinced that such a rollout is too slow. This is particularly true in light of the current capabilities of MCI/WorldCom and AT&T, described above, and is borne out by the comments of customers who have made it clear that they want to deal with someone who has national capabilities. It is quite clear that these companies want to deal with a provider that has national capabilities now and that a mere promise to be national some time in the near future is not adequate in light of our competitors' current capabilities to provide those services.

22. As a result of this reevaluation, we now anticipate that the time needed for entry into these markets will need to be reduced. Our current plan contemplates placing facilities in most of these 30 markets within a year and a half after the closing of this transaction. Moreover, SBC will begin to make actual investments in these out-of-region markets as soon as this merger closes. We must have this capability in order to be competitive.

23. In addition, we are actively reviewing the markets into which we propose to enter and the order in which we propose to enter them. Again, customer demands are driving this consideration. I anticipate that the order in which we enter markets might be altered from our original plan and that additional markets will need to be added to this list. As

we dive more deeply into this strategy, we find that while the initial 30 markets is a great start for most customers, it does not provide the reach we will ultimately need. This, of course, is borne out by AT&T's/TCG's presence as a local exchange provider in over 100 markets and the capabilities and national footprint of other competitors such as MCI/WorldCom.

24. In addition to dedicating substantial market research resources to this endeavor, SBC has begun to accumulate the initial management team which will be involved in the implementation of this National-Local Strategy. We have recently announced the appointment of Mr. Stephen Carter as the senior executive in charge of the implementation of the National-Local Strategy. (See Attachment 11). Mr. Carter is a highly experienced telecommunications executive who is well qualified to lead this effort. He has been involved in competitive telecommunications related ventures in the U.K. and the United States and has most recently been the President-Special Markets for SBC Telecommunications. In that position, Mr. Carter was responsible for serving wholesale customers, including negotiating interconnection agreements, throughout the SBC region. Mr. Carter not only understands the competitive marketplace but understands the 1996 Telecommunications Act and, in particular, its requirements relating to resale, unbundling and interconnection. That experience will be invaluable as SBC moves into 30 markets around the country as a CLEC.

25. Mr. Carter is supported by senior marketing and network executives. We have also appointed one of our most senior state regulatory lawyers to direct the regulation and legal activities of this team. In addition to undertaking initial marketing and network

planning activities, this team is also actively preparing to seek state certification in those states where such applications are necessary. These applications will be conditioned on the closing of the SBC/Ameritech merger. In addition, we are considering how we can utilize existing state certifications and interconnection agreements held by SBC and Ameritech to quickly enter certain states. For example, each of SBC and Ameritech has statewide local exchange certificates for New York. While SBC resold service pursuant to Bell Atlantic's resale tariffs, Ameritech has an interconnection agreement with Bell Atlantic. The activities Mr. Carter and his team are actively pursuing in anticipation of regulatory approval include the following:

- Organize, incorporate and register our out-of-region company
- Complete our analysis of out-of-region regulatory requirements
- Identify and prepare to meet state and/or municipal certification, franchise and registration requirements
- Identify and analyze existing interconnection agreements in out-of-region markets
- Plan and begin interconnection negotiations
- Begin a staged filing plan for state certification
- Finalize our market area priority
- Identify and negotiate necessary right-of-way for facilities
- Develop an appropriate trade name and brands
- Obtain any needed trademark, trade name or service mark protections
- File, as necessary, to register "dba" trade names or fictitious names
- Develop draft tariffs or price lists

- Negotiate with switch and equipment vendors for a ready supply of equipment and facilities
- Obtain necessary company code and number resources for facilities-based service
- Finalize network design
- Establish necessary billing, provisioning and customer care systems

SBC's National-Local Strategy is a Viable, Well Reasoned Business Plan

26. In my original affidavit in this proceeding, I described in detail the process by which the National-Local Strategy had evolved to its current state. As I have discussed above, this strategy is continuing to be revised to reflect rapidly-changing market conditions and customer demands. While this strategy continues to evolve, it is a viable strategy which can only be implemented successfully by the combined SBC and Ameritech upon completion of this merger. It is disingenuous at best for our competitors/opponents to feign concern that this strategy will fail. In reality, their concerns are directed toward the creation of a strong national and global competitor.

27. Some competitors/opponents have taken inconsistent positions regarding the "follow the customer" strategy. Sprint, through the affidavit of Steve Signoff, seems to suggest that customer relationships don't matter, while AT&T at least acknowledges that you can build upon those relationships. SBC and Ameritech, and all of their advisors and experts, believe following large and mid-size corporate customers, and attempting to build upon existing business relationships, presents a viable and rational mode of entering local exchange markets out-of-region. As shown by the customer support letters described in detail above, there is a large segment of customers who are anxious

for the opportunity to deal with an expanded SBC for all their telecommunications needs.

28. By using large corporate customers as "anchor tenants," SBC will also have the opportunity economically to serve small business and residential customers in each of the markets we will enter. Attempts to serve these customers will be largely incremental -- particularly in the early years of roll-out efforts to serve large and mid-size corporate customers. This expansion strategy can build upon existing fiber networks supplemented by fiber which SBC anticipates constructing in these markets rapidly and efficiently to serve the large and mid-size corporate customers which we will follow, as well as large and mid-sized corporate customers who are in the markets we will enter but with whom we currently have no relationship. Attachments 12 and 13 contain a series of maps depicting how local exchange entry might occur in Washington, D.C. and Tampa, Florida, respectively. Depicted on these attachments are the locations, in those cities, of regional offices of Fortune 500 companies that are headquartered in the SBC/Ameritech region. In addition, these maps show the regional offices of Fortune 500 companies which are headquartered outside of the SBC/Ameritech region. We have depicted existing fiber routes in these markets (although this is not by any means an exhaustive depiction of existing fiber), existing CLEC and ILEC switches, and a representative manner by which existing fiber rings could be expanded through targeted construction of SBC-owned fiber. It is clear from these attachments that the customers which we propose to follow can be economically served as we have described. Their facilities are close to existing fiber rings and, for those who are not, targeted expansion

of fiber can reach large blocks of these customers.

29. What is also clear from these attachments is that SBC can efficiently and economically serve a large proportion of the residential customers in these markets. Our strategy is to offer packages of local exchange, long distance and other features that are attractive to consumers who are high users of telecommunications services. It is important to note that the high users of telecom services cross all socio-economic groups and income bands. Chart 1 below is a depiction of SWBT's average total billed revenue ranges by income groups.

Chart 1

THE SBC NATIONAL-LOCAL STRATEGY

Consumer Segment

SWBT Average Total Billed Revenue Ranges[1]

Income Group	Avg. Mo. Bill $48.36 and up	Percent of Total Pop.
Under $15,000	15.9%	7.1%
$15,000 - $24,999	17.1%	16.6%
$25,000 - $34,999	18.6%	25.0 %
	17.7%	48.7%
$35,000 - $49,999	18.3%	25.0%
$50,000 - $74,999	17.8%	17.8%
$75,000 - $99,999	18.2%	5.3%
	18.2%	48.0%
$100,000 - $119,999	18.9%	1.7%
$120,000 - $149,999	20.3%	1.0%
$150,000 and Over	23.9%	0.6%
	20.3%	3.2%

[1]Derived from telephone surveys.

30. It is critical to note that customers whose bills average $48.36 per month and up are equally distributed across all of the income groups surveyed. For example, 17.7% of the customers who have annual income of less than $35,000 per year spend in excess

of $48.36 per month on telecommunications services. The percentage of those customers whose income is between $35,000 - $100,000 is 18.2% and the percentage for customers whose income is over $100,000 is 20.3%. These are remarkably similar percentages of the customer base. It is also important to note that 48.7% percent of the total population earns less than $35,000. As a result, it is obvious that a large proportion of the customers whom SBC hopes to, and can serve profitably, earn incomes of less than $35,0000.

31. These figures are also reflected on the maps contained at Attachments 12 and 13. We have depicted on these maps the bottom 25% of the area zip codes by household incomes (which is a good barometer for the below $35,000 income group noted in Chart 1, above) and the top 25% of the area codes in these markets in the percent of non-white population. It is abundantly clear to SBC that we can efficiently and profitably serve a large portion of the residential customers on an incremental basis to the follow the customer strategy. Not only do we believe this strategy is in our shareholders' best interest, but serving residential customers has substantial public policy benefits. SBC is the only company that has indicated that it will serve residential customers out-of-region and has demonstrated through my original affidavit and the information described above that we can efficiently serve substantial portions of the residential market.

SBC Would Not Undertake this Strategy Alone

32. Some competitors/opponents have suggested that SBC should simply implement the National-Local Strategy on a smaller scale on its own. For example, in the Declaration of Stanley M. Besen, Padmanabhan Srinagesh and John R. Woodbury (the "Besen Declaration"), economists hired by Sprint, challenge the need to have multiple switches in each market and note that: "Each firm could deploy fewer switches if they entered the market separately and obtained fewer customers." (See Besen Declaration at Page 12). Setting aside the proposition that any business should operate in order to have fewer customers -- a proposition that SBC rejects -- this is inconsistent with the idea of ensuring network reliability through redundancy and the need to serve as many customers as possible in order to spread fixed costs over a larger customer base. Indeed, Gene Agee, the Director of Finance for Sprint's national integrated services, describes in detail the high-fixed and semi-fixed cost nature of the telecommunications business and notes that fixed-cost firms benefit from increased utilization. (See Agee Declaration at Page 3). Mr. Agee gives examples of fixed costs including switches, software, ATM switches, billing systems, OSS, paired and redundant network control facilities and other items. Mr. Agee correctly notes that a company that has a relatively small scale and scope, has a much higher per unit cost for these fixed and semi-fixed cost functions than a company with a larger scale and scope. (Agee Declaration at Page 6). Mr. Agee concludes that these cost differences translate into real price/cost differences in the marketplace.

33. The need to be in as many markets as possible to compete with MCI/WorldCom and AT&T and to serve the needs of our customers is, in and of itself, substantial and adequate justification for the broad-based entry contemplated by SBC. The fixed cost nature of telecommunications service is by itself a substantial verification that SBC will have tremendous incentive to serve residential customers in order to increase the utilization of the assets placed in the markets. As shown in Chart 1, above, that incentive translates to a real incentive to serve residential customers at all income and socio-economic levels which has real benefits to consumers, our shareholders, our employees and the competitive nature of markets in general. While neither SBC nor Ameritech alone will or could rationally undertake such a broad expansion out-of-region, combined we not only can do so, we must do so. The National-Local Strategy is real, realistic, viable and essential to the combined SBC's future success. The National-Local Strategy will be implemented by SBC.

SBC Has Opened Its Local Exchange Markets To Competition

34. In another effort to frustrate SBC's effort to compete in the market, competitors/opponents have repeatedly questioned the efforts of SBC to open its markets to competition. MCI/WorldCom suggests that SBC has frustrated competitors in their market opening initiatives. This is what MCI/WorldCom tells this Commission and other regulators. What do they tell their customers? Do they tell them they cannot serve their customers needs everywhere? Do they tell the customers that they cannot provide local exchange services to those customers or in our markets? Does their 12 page *Wall Street Journal* advertisement say they can serve the customers' local needs

everywhere except where SBC is an incumbent local exchange carrier? No. In MCI's own words, "While other communications companies are talking about building a seamless network, or planning to build one, or conjuring images of building one, MCI WorldCom's network is here today. The only local-to-global network in the world." (See Attachment 1 at Page 2).

35. This is not all that MCI/WorldCom says about local markets. As shown in Attachment 1, MCI/WorldCom states that, "It's said that all business is local, and that's where all of MCI /WorldCom's network begins. We've built local facilities in over 90 markets in the U.S. and Europe. We can handle more than half of American business' local calling needs in the US alone (That's more than anyone else.)" (Id.). MCI/WorldCom notes that, "Further, the artificial communication boundaries of yesterday's networks no longer exist on our network. So all of your local services are now combined with your other services for greater volume discounts." (Id.). Unless MCI/WorldCom is misleading its customers, it is acknowledging that it can compete with SBC and Ameritech in our territories, as it provides local, national and international services.

36. Sprint is equally inconsistent between what it tells regulators versus what it tells its customers. Sprint has acknowledged in its affidavits that it has nationwide advertising. Sprint is one of the largest local exchange carriers in the country. Where it is to its advantage to claim that our markets are not open, it does so. It then, in its own affidavits, provides evidence to the contrary. Sprint begins its discussion by claiming that entry barriers are high and that competitors cannot enter SBC's markets. Later,

however, when it is attempting to make a different point about SBC's business plans and strategies, Mr. Signoff, the Vice President - Strategic Business Development for Sprint states that: "We have witnessed the success of new entrants into both local and long distance services; many of these firms were initially start-up companies." (See Signoff affidavit at Page 12). Later, Mr. Signoff notes that buyers -- including large, sophisticated purchasers -- are actively providing new entrants with business, noting that "If this were not the case, then we would not be witnessing the tremendous growth for resellers and smaller facilities-based firms." (Id.)(emphasis added).

37. While our competitors/opponents' own statements demonstrate that SBC's and Ameritech's markets are open, SBC provided substantial information in our Applications and the accompanying Public Interest Statement that also demonstrates that fact. (See Affidavit of Stephen Carter, attached to the Public Interest Statement). SBC's efforts to open its markets have not stopped. Attachment 14 to this reply affidavit is SBC's October 1988 status report on our market opening initiatives. This attachment demonstrates that CLECs have obtained a minimum of 1.2 million to 1.86 million resold and facilities-based lines in SBC's states. This is why MCI/WorldCom can run the advertisements they run. SBC has signed over 390 interconnection agreements with local wholesale customers and 286 of these agreements have been approved by state PUCs. Two hundred sixty-four (264) CLECs are operational and have passed local orders to SBC. We have provided more than 438,000 trunks to CLECs which combined have a call carrying capacity of 4.3 million lines, and it is estimated that each of these trunks supports at least 2.75 CLEC lines. More than 17.2 billion minutes of local and Internet traffic have been exchanged between SBC and CLEC network. SBC has been

providing unbundled elements and interconnection at forward looking costs approved by its state PUCs for some time. SBC has complied and continues to comply with Section 251 of the Telecommunications Act of 1996. Competitors have captured over half of the new high capacity dedicated services and data service business and nearly half the intraLATA toll business at SBC's regions. Our markets are open and our competitors are offering services to customers everyday. (*See* Attachment 14).

38. SBC has continued to make great strides in working with the state PUCs to further market opening. On July 30, 1998 the Texas PUC staff, CLEC representatives, and SWBT began a collaborative process, scheduling 18 sessions and 9 follow-up sessions. Fifty days were committed to preparation for and attendance at these collaborative sessions with six to twenty SWBT employees attending each session. SWBT staff spent approximately 6,000 hours preparing for and attending these sessions. The PUC staff requested follow-up to an additional 100 items requiring an estimated 400 to 600 hours of research. During the collaborative process in Texas, SWBT has made numerous concessions including putting forward a Comprehensive Interconnection Proposal (CIP) which adopts all of the Texas arbitration results reached as of July 1, 1998. The CIP is designated to be available on SWBT's Internet site where it can merely be printed, signed by the CLEC, and sent to SWBT for signature and filing. Also, in connection with this collaborative process, SWBT has increased by 50% its performance measurements data and has also proposed a common cage solution for collocation.

<u>The National-Local Strategy Is Difficult And Expensive To Implement And Creates Substantial Risk For Our Shareholders</u>

39. As I noted in my original Affidavit, this merger is not necessary to obtain the ability to raise the $2.5 billion in capital required to implement the National-Local Strategy. Any competitor/opponent who suggests that this is the basis for our merger is at best wrong and at worst intentionally attempting to mislead this Commission. Either SBC or Ameritech could raise $2.5 billion in capital. That is not the issue, and we have never said that it is the issue.

40. The areas of concern which are alleviated by this merger are the expansion of the existing customer base which can be "followed" by SBC and Ameritech to serve as anchor tenants to increase the likelihood of success of this merger; the critical need for enhanced management talent and expertise necessary to effectively implement this strategy, and the creation of the necessary scale, scope and geographic coverage necessary to be competitive and successful.

41. Employees are one of our primary concerns. Implementation of the National-Local Strategy requires more than 8,000 out-of-region employees by the end of the 10 year period covered by our business plan. In light of the fact that our current revisions to the business plan contemplate expediting the rollout of this strategy, it is likely that those employees will be needed more quickly than originally contemplated. While a large percentage of these employees will be hired from outside of the company, experienced management is critical. This is made even more critical by the geographic dispersion of

these employees in 30 markets where we now have no local exchange employees, networks, customers or other assets. We will, in essence, be starting a business from scratch in the 30 markets. In order to do so we must have experienced management and a well-developed hiring and training process to ensure that these employees are capable of providing the high quality service that SBC and Ameritech provide to their current customers today and which all customers demand.

42. In fact, in his initial Affidavit filed in support of the transfer of control Applications, Dr. Dennis W. Carlton described in detail the magnitude of the managerial resources required to undertake the out-of-region project. As he indicated in Table II of his initial affidavit, if SBC alone were to undertake this strategy, it would require 16% of SBC's current managers. If Ameritech alone undertook a comparable strategy it would 36% of its existing managers. On a combined basis, however, it would require only 8% of our existing management talent. Our entry is incredibly complex and grows more complex by the day. Hiring and retaining qualified, experienced managers is difficult. It is critical, however, that we undertake this strategy; the merger facilitates this capability.

The magnitude of the need to hire employees is further demonstrated by a comparison to some of the largest CLECs who have been operating for many years. According to the 1998 Annual Report on Local Telecommunications Competition, issued by New Paradigm Resources Group, Inc., Brooks Fiber, which was founded in 1993, had only 1,605 employees at the end of 1997. This same report indicates that MFS which was founded in 1987, had only 3,900 employees by the end of 1997. Teleport Communications Group which was founded in 1983 had only 3,050 employees at the end of 1997. These comparisons demonstrate both the breadth and depth of the entry contemplated by SBC and the tremendous demand for experienced and qualified employees including management talent. Absent this merger, SBC would not be capable of supporting these requirements.

Neither SBC Nor Ameritech Would Undertake The National-Local Strategy On Its Own

43. Some competitors/opponents have questioned why this strategy cannot be implemented by SBC or Ameritech on a standalone basis. Ironically, two of the most vocal competitors/opponents are MCI/WorldCom and AT&T, each of which have undertaken and are continuing to undertake substantial efforts via mergers and joint ventures to achieve even larger economies of scale and scope that SBC has indicated are essential to implement this strategy. Moreover, neither SBC nor Ameritech alone have the assets and resources necessary to allow them to undertake this strategy.

Neither SBC Nor Ameritech Alone Could Incur The Earnings Dilution Caused By A National-Local Strategy

44. I described in detail in my original Affidavit the risk inherent in and the expenses associated with the implementation of this National-Local Strategy. As Jack Grubman, the Salomon Brothers analyst, has indicated in an affidavit attached to these reply comments, independent entry into 30 or more out-of-region markets by SBC would be viewed in a highly negative manner by its shareholders, and the investment community

in general, due to the dilutive effects such an action would have on SBC's earnings. While some commentators (Texas Office of Public Utility Counsel) and competitors/opponents (Sprint) question the assertion that SBC is measured on current earnings and CLECs are measured on future growth prospects, those claims are simply wrong. Mr. Grubman, one of the most well known analysts in the telecommunications industry, has repeatedly stated that such a dilution would be viewed quite negatively by SBC's shareholders. Mr. Grubman has further explained his analysis in his Reply Affidavit attached to these reply comments.

Conclusion

45. The merger of SBC and Ameritech is in the public interest. This merger, and the National-Local Strategy which it enables, advances the goals of the Telecommunications Act of 1996, ensures that broad facilities-based competition is available to large business customers, mid-sized and small business customers, and residential users of telecommunications services. SBC will continue to open its markets in-region and will facilitate the opening of market initiatives out-of-region. The result of this merger and the National-Local Strategy will be a dramatically more competitive market across all segments of the market which might not occur at all and certainly would not occur as quickly without the merger and without the National-Local Strategy. The customers should chose winners and losers -- not the FCC. The FCC has blessed the activities of a number of competitors to obtain the same national and international capabilities as SBC and Ameritech seek to facilitate through this merger. The FCC should approve this merger and let the market and the consumers determine who will win in a competitive telecommunications environment.

James S. Kahan

Subscribed and sworn to before me this 13th day of November, 1998.

Valerie H. James

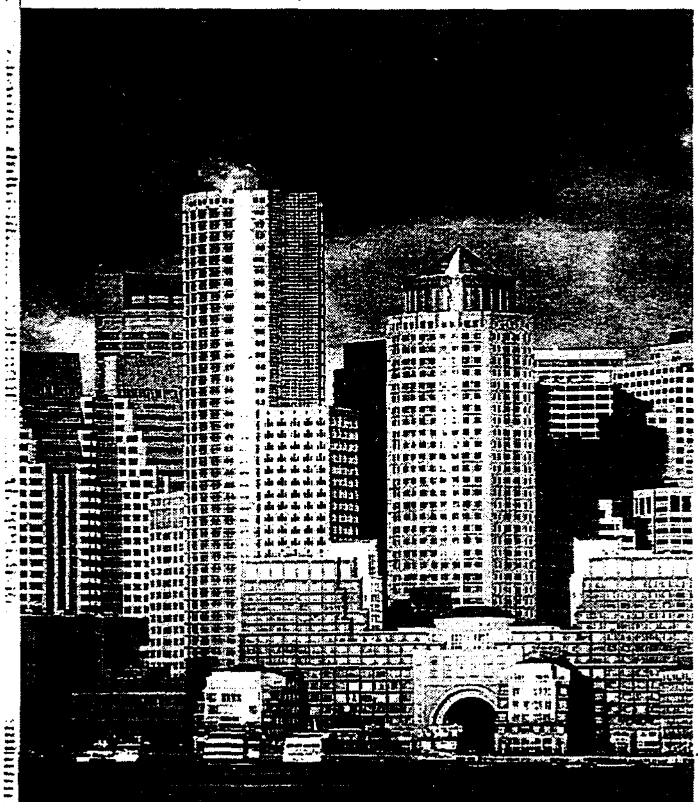
Notary Public

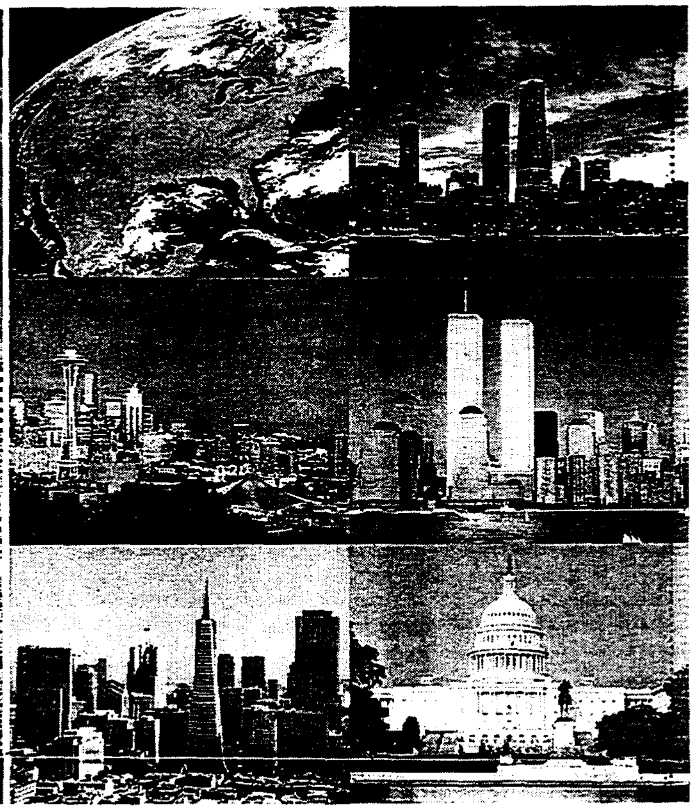
VALERIE H. JAMES
NOTARY PUBLIC
State of Texas
Comm. Exp. 10-09-99

Attachment 1
To Reply Affidavit
Of James S. Kahan

MCI WorldCom 12–Page Advertising Insert in the October 1, 1998, Issue of The Wall Street Journal

The only local... ...to national...





While other communication companies are talking about building a seamless network, or planning to build one, or conjuring images of building one, MCI WorldCom's network is here today. The only local-to-global network in the world.*

LOCAL

It's said that all business is local, and that's where all of MCI WorldCom's network begins. We've built local facilities in over 90 markets in the U.S. and Europe. We can handle more than half of American business's local calling needs in the U.S. alone (That's more than anyone else.)

But how is our local network better than the service you've been buying from the local monopolies? Our network is truly the next-generation network: the SONET rings we deploy make our service newer, faster and more reliable. Faster because of SONET's superior bandwidth capacity. More reliable because we use self-healing technology that lets the network restore service faster than the blink of an eye. (To be precise, within one-tenth of a second.)

But beyond speed, beyond newness, there is something else you can expect from a one-carrier network. Consistency from market to market, the same services, working the same way. For example, your local service or high-speed Internet access works the same in Paris as it does in Tulsa. Now there is one company, one contract and one account team for all your communication needs. Even when those needs span different cities on different continents.

Further, the artificial communication boundaries of yesterday's networks no longer exist on our network. So all of your local services are now combined with your other services for greater volume discounts.

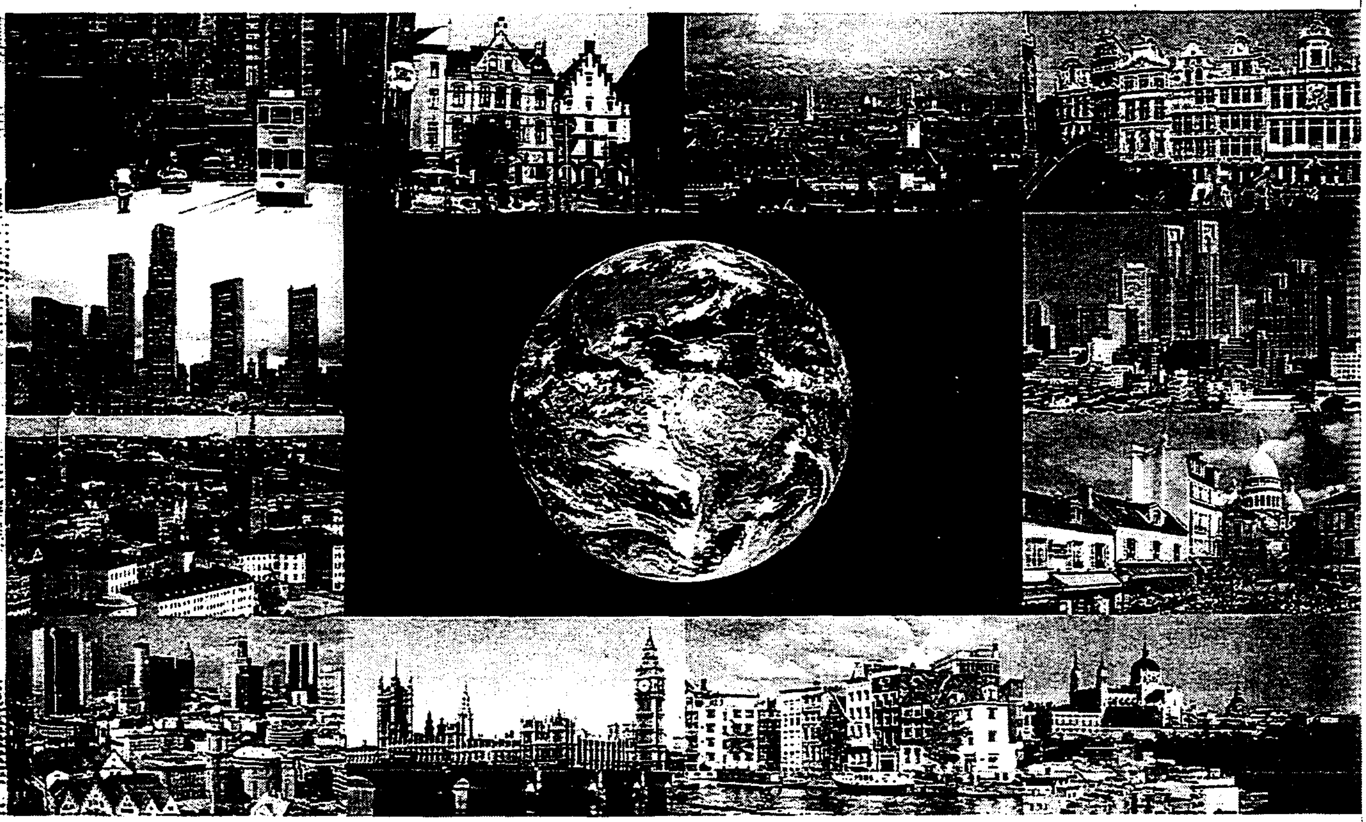
NATIONAL

Both MCI and WorldCom built fast, reliable, state-of-the-art national networks. What do you get when you put these two networks together?

Quantity. We continue to expand and interconnect our SONET ring networks. Our SONET service coverage is greater than other carriers—totaling more than 3500 city pairs.

Quality. Our national network has the same millisecond

...to global network from one company.



restoration as our local networks. Your data will get to where it needs to go.

Capacity. Our network has capacity so vast it can carry all of the data traffic of all other carriers combined.** Wave Division Multiplexing lets us increase network capacity without adding more lines or laying new cable. It's like increasing capacity without increasing our cost.

GLOBAL

The MCI WorldCom network extends across the ocean and into Europe with new East-West cables that employ state-of-the-art technology. Using two diverse transatlantic paths, the network provides redundancy that no other carrier can provide. And MCI WorldCom has the bandwidth to handle ever-growing capacity needs.

What does a global network mean for your business? It means that you get "end-to-end" reliability. You pump some data in from a building in lower Manhattan and it goes out on MCI WorldCom. It leaves New York and heads across the Atlantic. All on MCI WorldCom. In Europe, it travels on local networks which are, in turn, connected to a Pan European network...all owned by MCI WorldCom. It's not been touched by a local phone company. Not terminated by a second company overseas. It's been carried by the first truly local-to-global, end-to-end communications company.

MCI WorldCom is the only company that completes your calls without handing them off to others, without passing the buck. A chain is only as strong as its weakest link and MCI WorldCom has eliminated the weak links. That results in unmatched availability, faster provisioning and single-source accountability. Nations that account for two-thirds of the world's business now have access to the newest local-to-global communications network on earth.

What MCI WorldCom's global network means is that the notion of a long-distance or local phone company is a notion from the bell-bottomed era of the 1970's. One end-to-end network not only means one contract (with better volume discounts, because all services are combined into one account), which is an obvious advantage. It also means you always know who is responsible. The buck (truly) has found a place to stop. And it's here.

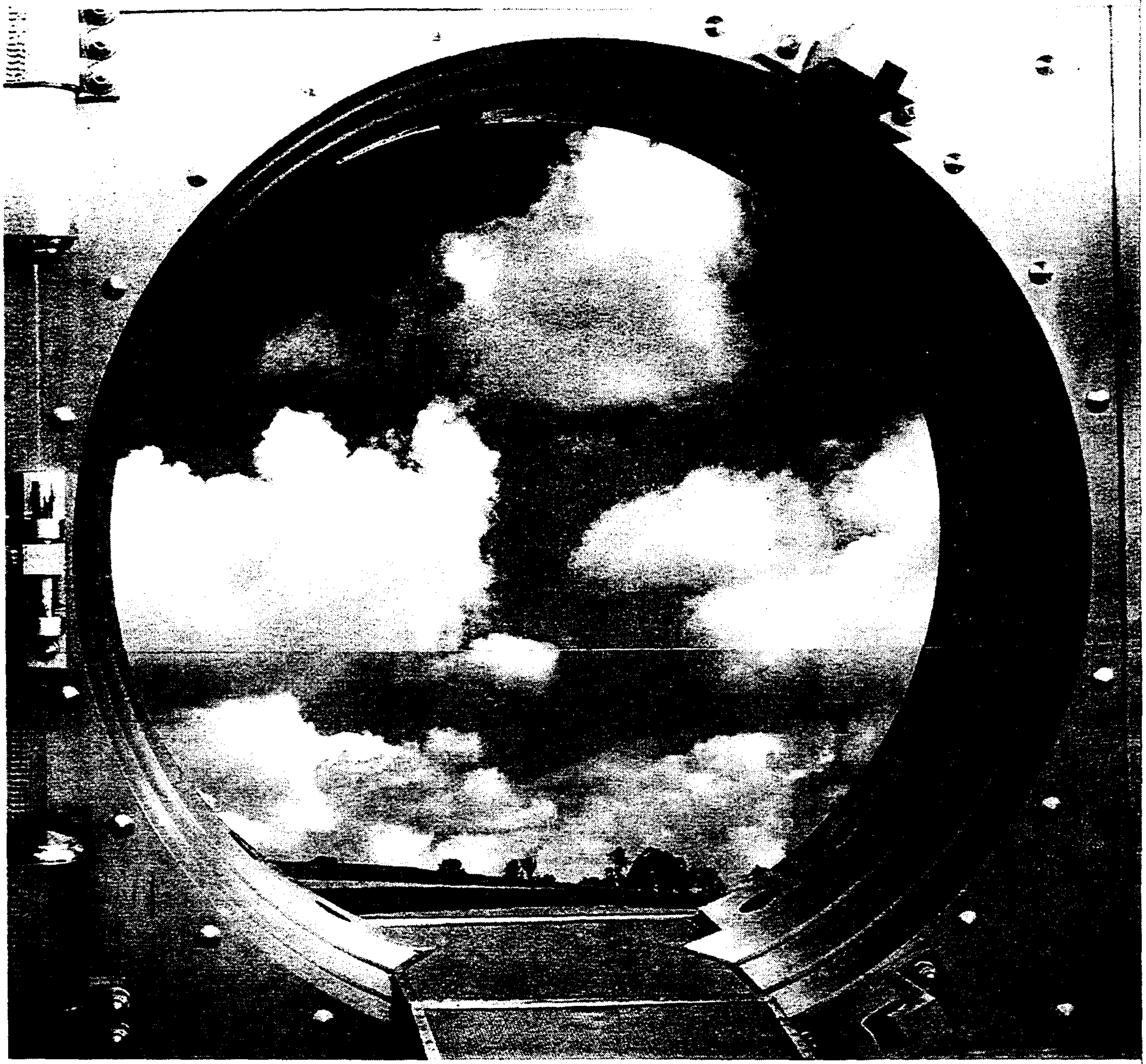
The value of one company is obvious for us.

CAPACITY MCI WorldCom's network has capacity so vast it can carry all of the data traffic of all the other carriers combined. So we're sure to have your communications needs covered. We're even considered the carrier's carrier—the acknowledged leader in the industry.

AVAILABILITY Having a fast, flexible network doesn't do you much good unless you can get on it. Our network is designed to maximize availability. Thanks to SONET technology, our networks can even fix problems before anyone knows they exist.

INTEGRATION What does it mean? It means that you can buy every communication service your business requires from one company. And it all works together. How many services? Internet. Data. Voice. Cellular. Paging. Prepaid Cards. 800 Service. Web Hosting. Call Center Services. Local Service – to name a few. Serving every possible communication need also means we can keep products, services and support consistent around the globe.

But what's the value for you?



FLEXIBILITY You now have access to unlimited capacity for voice and data. As much as you want. For data, especially, this is key. Because you can control your data-access port to accommodate your changing bandwidth needs on frame relay, ATM and Internet bandwidth.

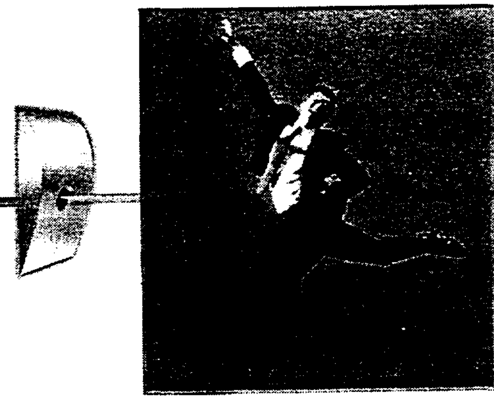
ONE CONTRACT Whether your needs are local, national or international, you deal with one company and one contract. A tangible benefit to both finance and communications. MCI WorldCom's network lets global businesses have one company for all their voice and data services, wherever they do business.

ECONOMICS It's simple: Volume discounts, which you get when you consolidate your communications needs, means the more you spend with MCI WorldCom, the more you save. That's it.

One network. One carrier. One cı

On-net. Two tiny words that are certain to have a tremendous impact on your business. In fact, they'll simply change the way business is done. Worldwide. On-net is more than just one product. It's a series of products and services. All of which can be tailored to your specific needs. With MCI WorldCom On-Net, you get one connection for everything. Instead of separate lines for local, long distance, international voice and data, there's one network, one contract and one company to take full responsibility. Somewhere a choir of angels is singing. No matter how much voice and data your company has to

ract. One very happy IT manager.



pump out, MCI WorldCom On-Net can get it there. To one location or one thousand. Instantly. All through our wholly owned global network. Which means we can monitor it every step of the way. Locally. Nationally. Globally. No handoffs to other carriers. One network. One contract. One company.

Nothing could be simpler. Or more cost-efficient. Happy?

MCI WORLDCOM

The Network has more than fiber all over

Patricia Zimmerman
Service Installation Manager
St. Louis, MO

Marion Sterling
Branch Manager, Global Accounts
Asia Pacific

Bob Hart
Senior National Account Manager
Parsippany, NJ

Diana Souza
Senior Global Account Manager
Europe

Suzanne Stidham
Customer Service/Escalations Manager
Tulsa, OK

ACCOUNTABILITY One place to go for answers. One account team for all your services, anywhere in the world. One company with a presence in 200 countries and offices in 65.

Accountability is our corporate culture. Something as highfalutin as corporate culture didn't much matter when all you were talking about was a dial tone. It didn't much matter that almost all of the corporate cultures providing dial tones had been conceived and nurtured in the 19th century. Before the PC, the internal combustion engine or crystal radios.

But a communications company's corporate culture matters for everything in an age when computers, software, telephony, dial tone and modem tone are one. MCI WorldCom, even our critics would agree, has the kind of soul that thrives in times that demand creativity. Favor the company with a customer-driven attitude.

the world. It has people all over the world.

Robert Douglas
Operations Support Manager
McLean, VA

Maureen Abele
Global Service Consultant
North America

Maribel Schnuer
Global Service Consultant
South America

Chris Cruz
National Account Manager
Boca Raton, FL

Charlie Harrison
Network Engineer
Richardson, TX

Ray Tokuda
Technical Manager
Los Angeles, CA

Toya Davidson
Software Project Engineer
Atlanta, GA

"Give me a fulcrum, and I can move the world."

—Archimedes, 260 B.C.

"Get me on-net, and I will move the world."

—A businessman, 1998 A.D.

Let us hail the coming of a new era in telecommunications. The Telecosmic Era. An era of bandwidth abundance, blasted free of the copper cages and regulatory blight of the global bureaucratels.

It is a time of competition. But not merely the old style of competition in the highly taxed and carefully tariffed vending of commodity services that are already widely available, such as phone calls and faxes, cable TV and broadcast radio. Instead, we will have an efflorescence of new services, springing from the cornucopian reaches of the World Wide Web—a telephony of high resolution video, an interactive television with millions of channels.

The Big Bang

Springing from the big bang of digital electronics and photonics, the telecosm flings the world away from you at red-shift Doppler speeds. If you can see it, it's already gone. The orientation for successful business in a new era is five years ahead—and you won't get there by problem solving. You solve problems, such as "competition in the local loop" and "long distance telephony" and you end up deep in the past, at status quo ante, or AT&T. In the telecosm, the entrepreneurial imperative is to pursue opportunities.

The key opportunities emerge from a transformation of the calculus of abundances and scarcities that define the era. Marking the era just passed was abundant power, abundant transistors and microchip silicon real estate, and scarce bandwidth. Marking the new era is scarce power eked from batteries on mobile devices, satellites and undersea cables, together with scarce silicon in single-chip mobile devices, and abundant bandwidth. Marking the old era were complex networks and dumb phones and TVs. Marking the new era will be relatively dumb broadband optical networks with more capacity in every fiber thread than the old networks commanded in all their global reach. These vast broadband avenues of the telecosm, wired and wireless, will link to tiny mobile terminals with more intelligence than an entire central switching office of the old telephone networks.

Say Goodbye to the Phone Company

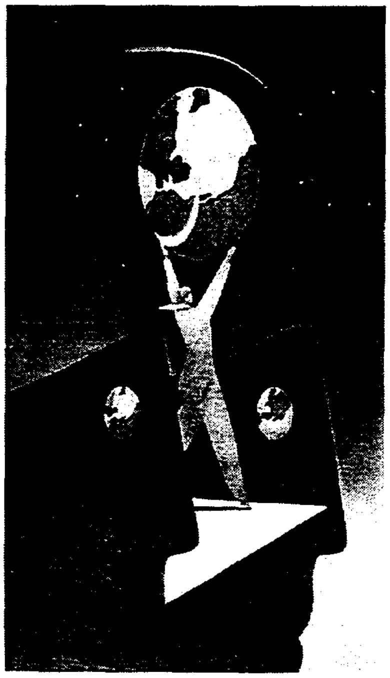
In the new era, bandwidth will advance some three times as rapidly as computer technology. It is an era when even computers will be measured in the gigahertz (billions of cycles per second) of microwaves. Gordon Moore's famous law—the 18-month doubling of chip densities—will shrink to relative insignificance before the tsunami rush of communications power that began in 1995, when MCI was the first communications company to break the 10 gigabit per second speed barrier with the first commercially deployed OC-192 fiber system. It was the first step toward the all-optical network that WorldCom and MCI will be building over the next decade. Allowing messages to travel from origin to destination entirely on wings of light, the all-optical network is a new kind of integrated circuit. Just as the integrated circuit of the last era enabled the creation of an entire computer system on a single sliver of silicon (sand) so the integrated circuit of the new era will enable creation of an entire communications system on a seamless seine of silica (glass). It is an era when the copper cages of the telephone companies—all 43 million tons—give way to crystal cathedrals of fiber optics and the iridescent air of the spectrum.

Your Opportunity: Rising Wealth

With one fiber thread now capable of containing three times the total traffic on the entire global telecom network three years ago, bandwidth is the new spearhead. Most powerfully wielding the spear will be MCI WorldCom. This new company is poised to usher in a revolution in broadband global telecommunications. Starting now as the leader in cross-Atlantic IP fax and Internet phones, the company will expand to global IP business services, video conferencing, and an array of new services yet to be unveiled.

Customers Getting What They Want Most: Time

In economics—"the dismal science"—just as crucial as the bounties of abundance are the disciplines of scarcity, the defining limits. The defining scarcity of the telecosm is ultimately time. Time measured by the speed of light and the span of life. Successful companies use the technologies of the speed of light to extend the effective span of life by increasing efficiency in the use of time.



In business terms, life span translates most sharply as the customer's time. The customer is sovereign and he knows what he wants. It is not your product—it is time.

The key force in saving time today is the Internet, and the most innovative force on the Internet backbone is MCI WorldCom.

In empowering customers, the new era of telecommunications casts a shadow over the entire established information economy. Just as the light speed limit opens large opportunities for companies supplying new network communications topologies, so the life span limit opens large opportunities for companies that focus on saving the customer's time. The key force in saving time today is the Internet, and the most innovative force on the Internet backbone is MCI WorldCom.

Isaac Newton's determinist dance and static universe yielded an industrial revolution based on the movement and transformation of matter from the outside and an intellectual revolution based on a calculus of material solidity. Quantum theory stripped the veils of solidity from the things of the world. From the emptied wombs of quantum matter emerged the microchip and Moore's Law. From the constraints of the speed of light and the quantum laser transpires the telecosm.

Light shines newly as a constraint because until the last five years light speed was an abundance—the ultimate velocity underlying the speed of computer and communications devices. Now light speed looms up as abruptly as a barrier as it did in physics at the beginning of the century. Just as light speed limit forced Einstein to reconstitute the entire Cartesian time-space grid of classical physics, the light speed limit today is compelling the reconstitution of the time-space grid of information technology and telecommunications.

With the arrival of MCI WorldCom, customers will ultimately see new all-optical networks that reduce delay by eschewing circuit switches, electronic amplifiers and optoelectronic convertors. Based on wavelength division multiplexing of colors of light across asynchronous networks that do not require a constant clock, optics can exceed the bandwidth and the bit-error performance of copper wires by as much as 10 orders of magnitude. Ten orders of magnitude—a multiple of ten billion—is a revolution in telecommunications.

By making bandwidth abundant, and telecommunications increasingly cost-effective, the new era radically changes the environment of all information industries. In all eras, companies tend to prevail by maximizing the use of the cheapest resources. In the age of the telecosm, they will use the huge intrinsic bandwidth of fiber (all 25,000 gigahertz or more) to supplant the hundreds of billions of dollars worth of switches, bridges, routers, convertors, codecs, compressors, error-correctors, and other devices, together with the trillions of lines of software code that pervade the intelligent switching fabric of both telephone and computer networks.

The makers of all this equipment will resist mightily. But the old regime cannot prevail by fighting cheap and simple optics with costly and complex electronics and software. The all-optical network will triumph in the future for the same reason the integrated circuit triumphed: it will be incomparably cheaper than the competition. Today, measured by the admittedly rough metric of MIPS per dollar, a personal computer is more than 5,000 times more cost-effective than a mainframe. Within ten years, the all-optical network will be millions of times more cost-effective than electronic networks. Just as the electron rules in computers, the photon will rule the waves of communication.

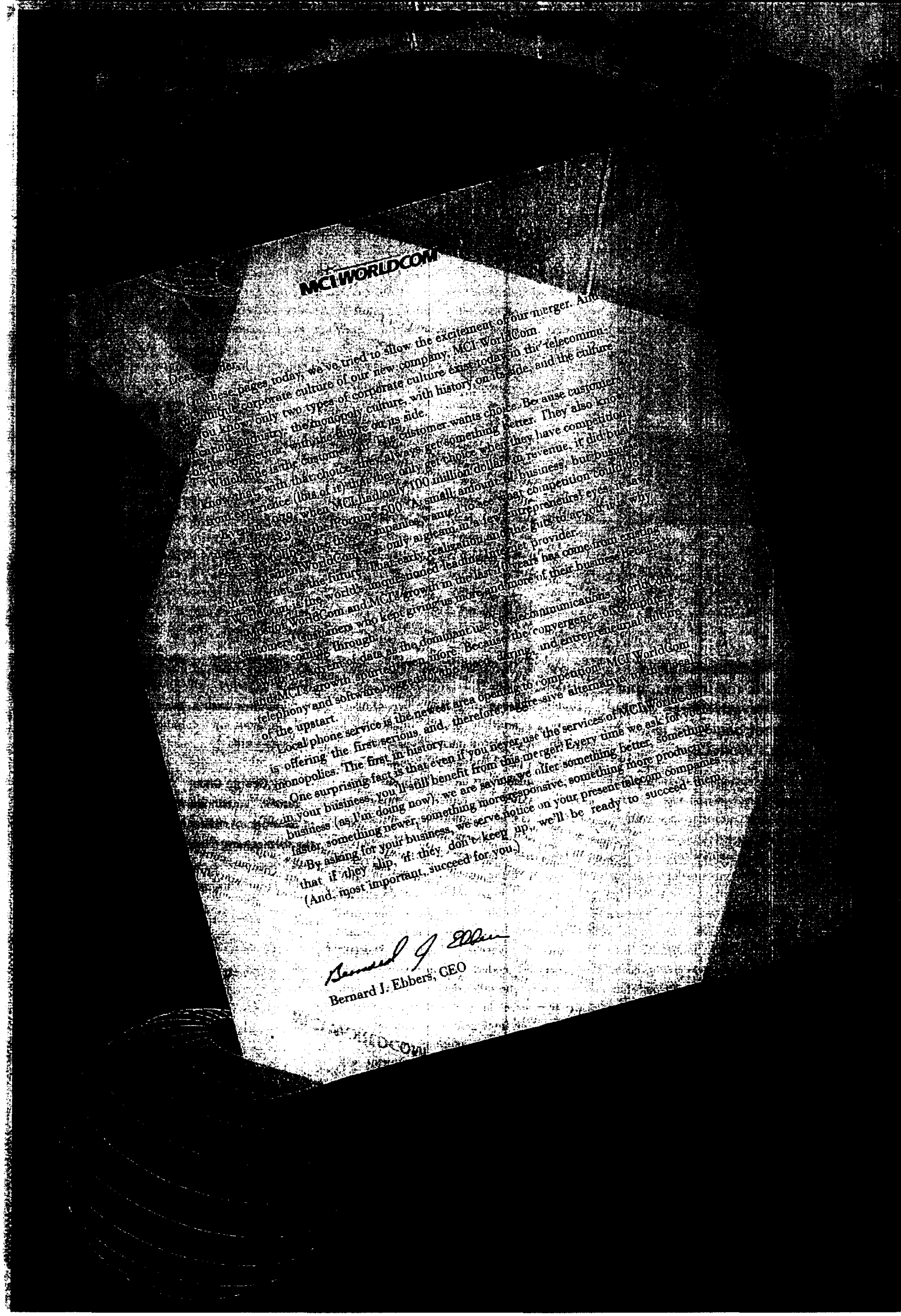
The all-optical technology of the new telecommunications era will put relentless pressure on all other communications systems. Every competing system will need to adapt to its cost structure. In the end, almost all electronic communications will go through the wringer and emerge in glass.

The Next 12 Years

During the first ten years of the next century, high-resolution flat-panel displays will become as natural a part of the indoor environment as windows. New Yorkers will be able to look out on a vista in Venice or Vail as readily as on a scene in Soho. Fiber will reunite families to share anniversaries at will or whim. A whiteboard at the Sorbonne or Caltech will be as nearby as the blackboard at your local high school. Geography will collapse into mazes of microchips and reemerge in the luminosity of worldwide webs of glass and light. And around these networks all business will be reorganized to exalt as their prime purpose and passion the enhancement of the customer's time.

—By George Gilder

Author, "Wealth and Poverty," "The Spirit of Enterprise," "Life After Television," and the forthcoming "Telecosm."


MCI WORLDCOM
(And, most important, succeed for you.)
Bernard J. Ebbers, CEO

Attachment 2
To Reply Affidavit
Of James S. Kahan

Emerson Electric Co. Letter of September 21, 1998

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SEP 25 1998

RECEIVED

DOCKET FILE COPY ORIGINAL

EMERSON ELECTRIC CO.
8000 W. FLORISSANT
P. O. BOX 4100
ST. LOUIS, MO 63136-8506

G. NICHOLS SIMONDS
VICE PRESIDENT AND CHIEF INFORMATION OFFICER
(314) 553-1470

September 21, 1998

Magalie Roman Salas
Commission Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, DC 20554

RE: Comments for CC Docket No. 98-141

Dear Ms. Salas:

On behalf of Emerson Electric Company and pursuant to Section 1.419(b) of the Commission's Rules, I would like to submit these comments to convey Emerson's support of the pending application of SBC Communications Inc. and Ameritech Corporation for transfer of control of licenses and authorization from Ameritech to SBC.

General Characteristics of Emerson Electric Co.

Emerson Electric Co., a Fortune 100 company, is engaged principally in the worldwide design, manufacture and sale of a broad range of electrical, electromechanical and electronic products and systems. The products manufactured by the company are classified into the following industry segments: commercial and industrial components and systems, and appliance and construction-related components. Domestically our divisions and subsidiaries are located throughout the United States. As with all companies, telecommunications is becoming a major component of our business operations. In order for us to effectively use and manage this resource, we find it more beneficial for Emerson to strategically "partner" with a fewer number of suppliers as opposed to trying to deal with a large menu of providers. We feel that SBC could be such a provider for us if it could extend its reach.

Telecommunications Needs of Emerson Electric Co.

This year will see the beginning of a centralized Information Services Division (ISD) that will handle the design, purchasing, implementation and support of all telecommunication services for Emerson on a global basis. In the past, all of this was handled on a location-by-location basis. Due to the size and complexity of this endeavor, we find it necessary to "partner" and align ourselves with a very select group of Telecom providers, while still providing 100% coverage at a cost effective price.

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Benefits of the SBC/Ameritech Merger to Emerson Electric Co.
As stated above, telecommunications is becoming a crucial element in the day to day operations of our company. We must have a reliable, cost-effective telecommunications services from a minimum number of providers. In the case of Emerson, a merger of SBC and Ameritech would create a provider with the geographic range and depth to be considered as a preferred supplier. Without the merger they are to us both "niche" players, with neither one being of high impact to Emerson.

Conclusion
Let me reiterate our support for the SBC/Ameritech merger. While we feel this will increase competition, it will also create an organization that can more favorably provide services to the breadth and operation of Emerson Electric Co.

Respectfully submitted,

G.Nichols Simonds
Vice President & Chief Information Officer
Emerson Electric Co.
8000 West Florissant Avenue
St. Louis, MO 63136
(314) 553-1470
nick.simonds@emrsn.com

GNS:jmt

Attachment 3
To Reply Affidavit
Of James S. Kahan

Edward Jones Letter of September 11, 1998

201 Progress Parkway
Maryland Heights, MO 63043-3042
314-515-2000
www.edwardjones.com

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Edward Jones

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September 11, 1998

Magalie Roman Salas
Commission Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: Comments for CC Docket No. 98-141

Dear Ms. Salas:

On behalf of Edward Jones and pursuant to Section 1.419(b) of the Commission's Rules, I submit these comments to convey Edward Jones' support of the pending application of SBC Communications Inc. and Ameritech Corporation for transfer of control of licenses and authorization from Ameritech to SBC.

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General Characteristics of Edward Jones

Edward Jones is a retail investment firm with 4200 offices located in the United States, Canada, and the U.K. It is headquartered in St. Louis, MO. Jones employes over 11,000 associates and has revenues in excess of $1B. The firm, a partnership, is known for its conservative approach to investing and emphasizes long-term personal, customer relationships. Offices are small and located near our clients, often in rural communities; we are described as "bringing Wall Street to Main Street."

Jones' midwestern roots result in many of our offices being located in SBC and Ameritech's service areas. Having a single, consolidated point of contact for as many of our branches as possible simplifies our business practices and operations.

Telecommunications Needs of Edward Jones

Edwards Jones has telecommunications needs for voice, video, and data communications. All of our 4200 offices and our main headquarters need both LEC and IXC POTS service. In addition, we need data communications from the St. Louis headquarters to a wide range of vendors, business partners, and secondary headquarters offices in Canada and the U.K. We utilize analog POTS, channelized T1 and T3, DDS, and ISDN PRI and BRI circuits to fulfill these needs.

Our approach to purchasing these services is to partner with a small number of highly reliable network providers. Reliability and availability are our primary concerns with ease of manageability and doing business second.

One of our significant telecommunications challenges is dealing with the many different local phone companies which serve our 4200 offices. Since many of these offices are in rural areas, we encounter a wide range of LECs. This results in operational, billing, and contractual complexities.

Benefits of the SBC/Ameritech Merger to Edward Jones

The merger of SBC and Ameritech will benefit Edward Jones by reducing the number different vendors needed to support our remote offices. Having fewer providers to contact for problem resolution will increase our service level to our clients by reducing down time. Having fewer providers for contractual issues and for billing will reduce our overhead expense, thereby allowing us to more efficiently serve our clients.

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Our national and global focus lead to a strong preference for dealing with telecommunications providers with a similar scope.

Conclusion

Edward Jones supports the SBC/Ameritech merger and believes that it will be beneficial to our firm and our clients.

Respectfully submitted,

Robert N. Tatum
Director - Network Services

cc: Keith Brown, SBC

Attachment 4
To Reply Affidavit
Of James S. Kahan

Levi Strauss & Co. Letter of August 31, 1998

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LEVI'S

August 31, 1998

Magalie Roman Salas
Commission Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: Comments for CC Docket No. 98-141

Dear Ms. Salas:

On behalf of Levi Strauss & Co. and pursuant to Section 1.419(b) of the Commission's Rules, I would like to submit these comments to convey Levi 's support of the pending merger of Ameritech and SBC Communications Inc.

Levi's is the world's largest manufacturer of brand-name clothing, with in excess of 35,000 employees throughout the United States and Internationally. Given the nature of our business, it is important that our telecommunications providers be national, or preferably, global, providers of service. The SBC National-Local Strategy makes the post-merger SBC/Ameritech such a provider and creates a new, significant competitor that Levi's can consider.

We believe that the merger will increase competition, giving us additional choices that were not previously available. This outcome is likely to benefit us in both long and short term telecommunications decisions.

Sincerely,

Mavis A. Pizzella

Mavis Pizzella
Manager, Network Services
(415) 501-6889

Attachment 5
To Reply Affidavit
Of James S. Kahan

Ultramar Diamond Shamrock Corporation
Letter of October 12, 1998

ULTRAMAR DIAMOND SHAMROCK
CORPORATION

October 12, 1998

Magalie Roman Salas
Commission Secretary
Federal Communications Commission
1919 M Street, N.W
Room 222
Washington, D.C. 20554

Re: Common Carrier Docket No. 98-141

I am Mike Kilbane, General Manager, Systems Architecture and Integration Services of Ultramar Diamond Shamrock Corporation, and I am writing on behalf of Ultramar Diamond Shamrock Corporation, to urge the Commission to approve the pending merger of SBC Communications, Inc. and Ameritech Corporation.

Telecommunications services are important to Ultramar Diamond Shamrock. Our business is the refining and marketing of oil and gasoline products. We currently operate seven refineries in the United States and Canada and own or franchise over 6300 retail gasoline outlets across North America. It is important to us to have a telecommunications company that can serve our dispersed locations. In particular, we rely on our telecommunications provider to maintain a substantial data network connecting our operations across the country.

We believe we receive significant value from working with a telecommunications company that can satisfy most or all of our telecommunications needs. This type of relationship gives us volume discounts, network compatibility, and focused accountability. To date, we have not considered SBC as a potential provider of services to all of our locations. With the combination of SBC - Ameritech and the launch of the "Thirty Cities Strategy," SBC will potentially be offering service to the large majority of our locations. With this significant amount of coverage, we will finally be able to consider SBC as a candidate to be our strategic source of telecommunications services.

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P. O. Box 696000 • San Antonio, Texas 78269-6000 • 210 / 641-6800

Our company will benefit directly from the merger. It will mean there is one more major telecommunications company to compete for our business. Given our past relationship with SBC since 1987 and the founding of our company, we would welcome the opportunity to have a new SBC - Ameritech compete for our national business.

Respectfully submitted,

Michael J. Kilbane

Michael J. Kilbane
GM Systems Architecture & Integration Services

Attachment 6
To Reply Affidavit
Of James S. Kahan

ComEd Letter of October 14, 1998

One First National Plaza
P O Box 767
Chicago, IL 60690-0767

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ComEd

October 14, 1998

CC DOCKET NO. 98-141

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Chairman William Kennard
Federal Communications Commission
1919 M Street, N W
Washington, DC 20554

Dear Mr. Kennard:

This letter is written to support the proposed merger between Ameritech and SBC as requested via CC Docket #98-141 The planned merger has the possibility of producing many positive results, likely benefiting ComEd in the following ways:

- Companies such as ours, expanding in national and international scope, want to deal with suppliers who can serve us anywhere. This merger will create such an alternative.
- We believe the new company's "national/local" strategy to enter new markets, thereby serving the largest markets in the U.S. will give millions of businesses, including ours, new choices for local and long distance phone service
- Because this merger is one of several now pending in telecommunications, we also believe the joining of Ameritech and SBC will increase the competitive nature of the entire industry, and give the combined company the size and strength it needs to compete against large national players and therefore continue to be a strong strategic partner with ComEd.
- Ultimately, this merger is about increasing Ameritech's competitiveness both here in our state and around the world.

Your consideration of these issues is appreciated more in the light of our industry's entry into the expanding competitive, deregulated environment.

Sincerely,

T. Oliver Butler/jeu

T. Oliver Butler
Vice President and CIO

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Attachment 7
To Reply Affidavit
Of James S. Kahan

Allegiance Healthcare Corporation
Letter of October 14, 1998

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NOV - 4 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Allegiance

Allegiance Healthcare Corporation
1400 Waukegan Road
McGaw Park, IL 60085-6784
847.473.1400

October 14, 1998

CC DOCKET NO. 98-141

Chairman William Kennard
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

Dear Chairman Kennard,

We are writing to you regarding the planned merger of SBC/Ameritech, and our support for this merger to happen. With the combination of the SBC/Ameritech merger, we would be able to realize greater purchasing power by leveraging our national expenditures to achieve greater discounts. Allegiance would also benefit by reducing the number of telecommunications providers that we must deal with on a local, national and global basis.

In closing, we are encouraging you to pass this initiative to spur increased local competition while providing benefit to a global corporation like Allegiance Healthcare. Please give this your full consideration as you evaluate CC Docket #98-141.

Sincerely,

Kenneth J. Yorgensen

Kenneth J. Yorgensen
Vice President, Enterprise Technology
Allegiance Healthcare Corporation

KJY/las

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